



Aurum Small Cap Opportunities

QUARTERLY PORTFOLIO UPDATE - Q3 FY 23

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Dear Valued Client,

This quarterly update is indeed a very special and momentous one for us as we completed **10 years** of our flagship small cap strategy! Delivering consistent outperformance over 10 years has catapulted us to be counted amongst the top performing small cap fund managers in the country. We can say with pride that over the last 10 years we have earned the credibility and reputation of being an *Institutional Investor* of choice for HNIs and family offices for their small cap allocations.

Moving on from a successful private equity career, when I decided to shift focus to public markets way back in Dec 2012, many close friends and well-wishers were seriously doubtful about the idea of 'private equity approach to small cap investing'. The passion for long term investing and a strong conviction that rigour and discipline of private equity investing when applied to small caps can create superior risk adjusted returns is what made me go against common advise and launch our small cap plan 'Aurum Small Cap Opportunities'. The 'contrarian' thinking worked well for us and also for our esteemed clients!

Looking back at past 10 years, we have navigated a range of market conditions and many global events. Through it all, we have stayed true to our investment philosophy of building strong investment theses with structural growth drivers and seeking out high quality companies therein with long term growth potential while adhering to our 'price guardrail' framework to invest only at reasonable valuations. It is this approach which made us invest early in several rewarding themes like digital transformation, bioethanol, medical devices, unorganized to organized, speciality chemicals, financial inclusion, amongst many others and create multi-baggers.



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QUARTERLY PORTFOLIO UPDATE - Q3 FY 23

Here is a snapshot of our decadal performance:

	1M	1 yr	3 yr	5 yr	7 yr	9 yr	Since Inception	CAGR growth (%)
Aurum Small Cap	-4.08%	-0.60%	146.69%	59.17%	134.78%	651.48%	1015.50%	27.18%
CNX Nifty	-3.48%	4.33%	48.79%	71.93%	127.84%	187.20%	206.60%	11.81%
Nifty Small Cap 100	-2.45%	-13.80%	66.78%	7.02%	72.13%	185.97%	162.29%	10.02%

*Consolidated portfolio performance net of expenses/charges and fees to the extent charged. Individual portfolio performances may vary.

Performance related information provided above is not verified by SEBI.

‘Significant outperformance across time periods’

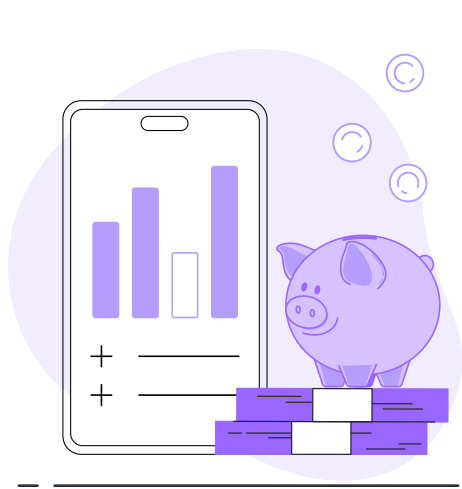
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QUARTERLY PORTFOLIO UPDATE - Q3 FY 23

The next 10 years

How about doing some crystal ball gazing and trying to paint a picture of 10 years hence! What changes can we see in some of the sectors and trends 10 years from now? Our team sat together a couple of weeks back and let loose our imagination to make 10 bold predictions for next 10 years. We are sharing our thoughts on 5 of these here and keeping the rest 5 for the next quarterly update. We hope you find it an interesting and intriguing read.

01 ‘Bharat Shining’ for BFSI



The next level of banking wars will be fought and decided in ‘Bharat’.

The next level of banking wars will be fought and decided in ‘Bharat’. India has been on the forefront, globally, in developing and deploying scalable fintech interventions that enable financial inclusion and reach the masses. With full deployment of the financial tech stack, we are ready to leverage the digital infrastructure that has been created to make nearly every citizen of this country bankable in the next 10 years. That is a huge opportunity for agile and nimble footed BFSI players (big or small) to deliver small ticket credit faster, sell small ticket investments and insurance to the masses in remotest areas of the country.

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10 years from now we expect:



Mortgage penetration (led by small ticket loans) to reach from **11%** of nominal GDP currently to **20%**



Affordable housing loans book (ticket size INR 15 lacs or below) will grow **10X from INR 60,000 Crs** currently to **INR 6,00,000 Crs**



MFI AUM will grow **5X from INR 3,00,000 Crs** to **INR 15,00,000 Crs**



Average small ticket loan disbursal process timeline to reduce from **2-14 days** currently to under **15 minutes**



Mutual Fund (including ETFs) AUM to grow **5X from 40 lac crs** currently to **210 lac crores**

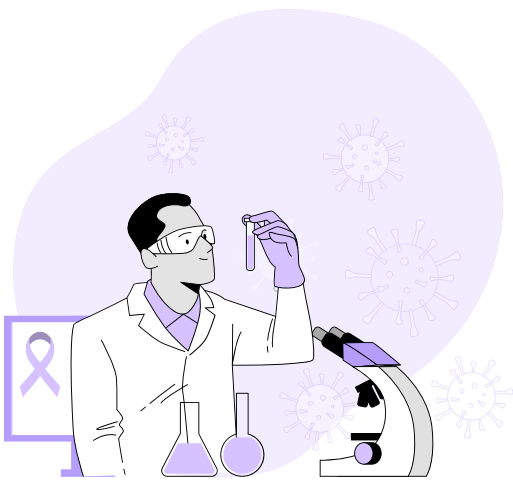


Emergence of a **Finance Super App** to do all **financial transactions seamlessly** eliminating the need to manage multiple accounts and compliances

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02 Democratization of Healthcare- from ‘classes’ to ‘masses’







**UHI will be for health
what UPI is for
payments.**

National Health Tech Stack comprising many tech initiatives including UHI (United/ Universal Health Interface) is currently under development with the active participation of the Central Government. UHI will be for health what UPI is for payments. UHI envisages extending the foundational blocks set up by Ayushman Bharat Digital Mission (ABDM), that encompasses issuing digital health ID cards to citizens (linked to Aadhar), connecting patients, hospitals, health data management cos and insurers in a seamless manner. There are pioneering efforts being taken even at the state level with Tamil Nadu government developing a digital health registry, in collaboration with Google, Tech Mahindra and a Delhi-based start-up Lattice Innovations in its endeavor to take preventive healthcare to the citizen’s doorsteps. Eventually such state level health registry will plug into UHI and resultantly big data analytics will help in public health policy planning, predictive analytics on disease outbreaks, ensuring availability of care/medications in critical health areas such as cardiac, diabetes and cancer, reduction in infant mortality, addressing malnutrition and such other objectives leading to significant overall improvement in public healthcare delivery with substantial reduction (if not elimination) of red tape, corruption and malpractices.

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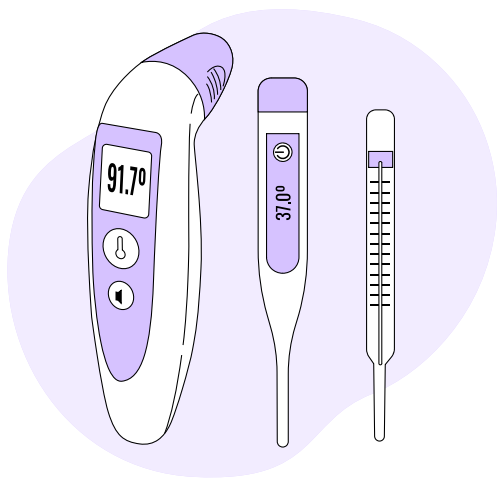
10 years from now we expect:

-  **Life Expectancy** of Indians to go up from current **70 years** to **75 years**
-  **Private health insurance** coverage to increase from current **4%** to **20%**
-  **Infant Mortality** to come down from current **27%** to **15%**
-  **Mortality claim settlement** in respect of life insurance to reach **99.99%** from **97%** currently

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03 'Make in India' Medical Devices- for India and the World!



We believe, the Indian medical devices industry is at an inflection point similar to what our generic medicine industry was in early 2000!

Indian medical devices market (US\$11bn) dwarfs in comparison to the developed markets in terms of size, representing just about 2.2% of the global market (US\$490bn). Historically, the Indian market has been dominated by MNCs - imports comprise ~40% of relatively low technology segments like consumables & disposables (syringes, disposable bags, blood bags, catheters etc.) and make up ~70% of the technologically complex segments like implants (stents, prosthetics, fixation devices, dental implants etc.) and equipment (MRI, CT, Ultra Sound, Cathlab, X ray, Scintigraphy and Electrodiagnostic apparatus, Robotic surgical arms etc.).

Thanks to the coming together of conducive regulations, the need for indigenisation (due to Covid disrupted supply chains) and financial incentivization (PLI), many domestic winners have emerged in this space in the last few years witnessing high growth and successful scale up. Notably, domestic companies are climbing up the technology ladder and have started giving a tough fight to MNCs even in areas like Surgical Robots, Dialyser Machines, Cath labs, LINACs, Dental Aligners amongst others. For example, in the area of stents domestic companies now command a ~70% market share. With all the required features, these companies are offering cost effective solutions that are priced 40-70% lower than their MNC counterparts thereby bringing in economic viability for even smaller hospitals in Tier 2 / 3 cities. This also bodes well for the medical tourism business.

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03

‘Make in India’ Medical Devices- for India and the World!

The lower capital and consumable cost is leading to a manifold rise in installations and usage of domestic medical devices allowing the manufacturers to gather large amount of user data and analyse the same to keep getting better on features with the launch of newer versions. The entire development to perfection lifecycle has been shortened and most of these companies have started exporting their products to other parts of the world with some even to developed markets. India's medical devices exports grew 13% last year against the global sector growth of ~5% . We believe, the Indian medical devices industry is at an inflection point similar to what our generic medicine industry was in early 2000!

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10 years from now we expect:



Indian Medical Devices industry to grow **9X** from **\$11bn** currently to **\$100bn**



Share of annual Cath **lab sales** that was nil 5 years ago and 28% in 2021 to **rise to 60%+**



Share of 'Make in India' **Dental Implants** going from **zero** currently to **10%**



India's market share in medical devices to rise from **2.2%** currently to **8%+**

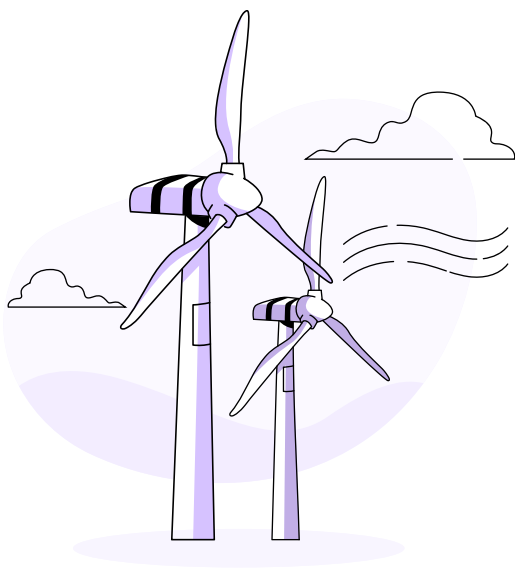


Emergence of a few billion USD revenue companies from this sector

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04 Discoms Privatisation... Finally.... TINA at play!



The Electricity (Amendment) Bill 2022 provides for ending discom monopolies and bringing in new suppliers to use existing infrastructure to supply power to retail consumers.

A big reform took place in the Indian power sector when the Electricity Act 2003 was passed nearly 20 years ago enabling the separation of generation and distribution businesses of state electricity boards. It was expected, then, that this will improve both the generation and distribution pieces – generation becoming more efficient through improved load factor and market pricing while distribution becoming more efficient through better collections and reduction of T&D losses thereby making each of these pieces attractive for private sector investments

On the generation side, these reforms, have helped in creating immense growth in power generating capacity (from 101 GW in 2000 to 410 GW in 2022) by attracting huge investments from the private sector which now accounts for 50% of power generation capacity compared to 25% & 24% for central & state governments, respectively. This has enabled India to transition from a hugely power deficient country where load shedding was the norm to making 24×7 power available in remotest villages for most part of the year.

04 **Discoms Privatisation... Finally.... TINA at play!**

On the distribution side though, it has been an disappointment as the political overhang has limited the ability of discoms to price electricity economically and collect efficiently from consumer or the respective state government, in case of subsidy. Therein lies the woes of discoms and in recent times the central government has spoken strongly against using state resources for giving away politically motivated freebies. We believe that we have reached a stage where states, reeling under huge financial burden, are left with no choice but to privatize discoms.

The Electricity (Amendment) Bill 2022 provides for ending discom monopolies and bringing in new suppliers to use existing infrastructure to supply power to retail consumers. Further it requires fiscal discipline to be maintained by discoms by providing adequate bank guarantees to power producers and also proactive revision of power tariffs by state regulators. The impact of these provisions can be hugely positive for the health of the power distribution business. We can draw upon examples of cities like Mumbai, New Delhi and Kolkata, as well as some smaller towns, where private participation in distribution has led to reduction in revenue losses and more viable operations. In F22, Mumbai and New Delhi reported AT&C losses of 6.6% and 6.8%, respectively as compared to the national average of 17% (average of 56 discoms, ex Delhi & Mumbai). Action on this front has already begun - the Govt has already announced privatization of discoms of 8 Union Territories and some cities in Odisha.

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10 years from now we expect:



80% **districts** in the country to have private distribution companies **supplying power**



Overall **AT&C losses** to come down from **17%** currently to less than **10%**



Cumulative new investment in **power distribution** to reach **INR 3,00,000 crores**

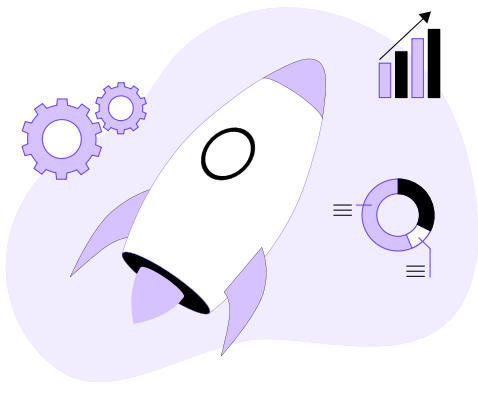


Stable **24x7 power** to be available throughout the year covering **99% of the country**

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05 India a 'darling' of VC and PE investors



Many other segments of innovation will see super action – Robotics, UAVs & Drones, Space tech, Health tech, Textile tech, Energy Storage, EV components and select high end industrial ventures amongst others.

From \$7.5 bn in 2012 to \$84 bn in 2022, VC/PE investments witnessed a 11X growth in the last decade. From being labelled by private investors as an 'exit challenged' market then to enabling record exits through big bang IPOs now, India's attractiveness for global VC & PE firms have risen steadily. Availability of risk capital from idea/seed stage all the way to late stage series C & D has fired up the entrepreneurial energy in the country like never before.

Active angel networks and accelerator firms have come up not just in metro cities but even Tier 2 cities like Jaipur, Indore, Surat amongst many others wherein aspiring start-ups from smaller towns are also able to showcase their ventures thereby creating a truly democratic entrepreneurial ecosystem of scale that will continue to grow and attract capital. The 'network effect' is in full blossom.

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05 India a 'darling' of VC and PE investors

As the world of devices and services becomes more interconnected and intelligent, India will play an increasingly important role in building IP that goes into powering the new interconnected world with its AI/ML & SaaS platforms tailor made for different applications and industries. We will see emergence of many more IP backed companies like Zoho and Freshworks achieving global scale and size. Indian fintech prowess will be recognized the world over. Many other segments of innovation will see super action – Robotics, UAVs & Drones, Space tech, Health tech, Textile tech, Energy Storage, EV components and select high end industrial ventures amongst others. With such a large canvas, India will become a favourite hunting ground for global VC and PE investors.

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10 years from now we expect:



Annual **VC/PE** investments to exceed
US \$250 bn



At least **25 VC funded companies** becoming
unicorns each year



Indian private space sector companies launching
at least **25 satellites each year**



Indian fintech powering financial inclusion
initiatives in at least **100 countries**

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QUARTERLY PORTFOLIO UPDATE - Q3 FY 23

Small Cap Prospects over the next 10 years

A rising tide lifts large ships to small boats but it's the small boats that rise the highest! We believe that India is a rising tide over the next decade and there will be opportunities for well managed small cap companies with robust business models to grow and rise faster thereby becoming an attractive opportunity for investors. We expect to see many small cap companies emerging out of the aforesaid trends and becoming great growth investment opportunities. The team at NRC has honed its skills over the last decade to discover such gems early and invest into them at reasonable valuations to potentially generate superior long term returns. Our private equity approach has helped us immensely in navigating through market volatility and staying our course.

As always, we look forward to your continued support and encouragement!

Warm regards

Sandeep Daga



Fostering growth, enhancing value 

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